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SUBJECT: YAPI KREDI DEAL WILL VAULT KOC INTO BIG LEAGUES OF
HEALTHIER BANKING SECTOR

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[B](#). 2004 ANKARA 1437

[C](#). 2004 ISTANBUL 1558

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This message was coordinated with Embassy Ankara.

[1](#)1. (SBU) Summary: The January 31 deal to purchase Yapi Kredi Bank from the embattled Cukurova Group will vault Koc Financial Services into the front rank of Turkish banking, fulfilling a long-standing goal of the Koc Group. More critically, it will remove a major cloud hanging over the Turkish banking sector stemming from Cukurova's continued ownership of one of Turkey's largest banks. Details remain to be worked out, pending final completion of due diligence on the bank, but by reaching preliminary agreement before the January 31 expiration of the period when it alone had the right to sell the bank, the Cukurova Group avoided bringing the Savings Deposit Insurance Fund (SDIF) into the sale process. Istanbul markets and analysts have been generally bullish on the deal, with overall indexes rising and the two principal stocks themselves also appreciating handsomely. Less clear is the fate of Turkcell, Turkey's leading GSM operator and the chief remaining asset of the Cukurova Group. After a series of contradictory announcements from various parties, Koc Group CEO Umut Ozaydinli made clear on February 3 that Koc is focused on Yapi Kredi and not on the Cukurova Group's telecommunications assets. He confirmed that Koc had given Cukurova a 12-month option to repurchase the shares of Turkcell owned by Yapi Kredi, leaving the GSM operator's future clouded. End Summary.

[1](#)2. (SBU) To the surprise of most analysts but the pleasure of Istanbul stock indexes, which took the opportunity to extend their rally, the Koc and Cukurova Groups met the January 31 deadline imposed by the SDIF for sale of Yapi Kredi. Under the agreement, Koc will buy the 44.53 percent of shares held by the Cukurova Group and its affiliated companies for just over USD 1.3 billion and the 12.4 percent of shares held by the SDIF for USD 300 million. In addition, Koc will issue a tender call for other minority shareholders. The USD 1.6 billion sale price (EUR 1.157 billion) values the entire bank at USD 2.7 billion. The bulk of the purchase price is expected to be returned to the bank to repay the USD 2 billion the Cukurova Group owes the bank. Given that final due diligence is yet to be completed, depending on its outcome the final purchase price may be adjusted. Among the issues to be resolved are the valuation of A-Tel telecommunications (widely believed to be booked at an unrealistic value on the bank's balance sheet-- and the subject of a lawsuit brought by the Capital Markets Board (SPK) against the former Yapi Kredi Bank board), Fiskobirlik (USD 400 million in overdue receivables from a hazelnut state farm cooperative, dating back to the 1980s, which few expect to be realized), and potential funding of the bank's pension plan.

[1](#)3. (SBU) Given these issues, some of our banking contacts expressed mild

surprise at the purchase price for the bank, judging it higher than they anticipated. (Indeed, rumors earlier in January pegged the purchase price at USD 900 million, well below the announced figure.) Though details are still a closely guarded secret (and we have not yet been successful in meeting with Koc Financial Services), they note that there are also indications that the Koc Group may write off some of the Cukurova Group's USD 2 billion debt to the bank. Also unclear is the manner in which the 13.1 percent of Turkcell held by the bank is handled in the valuation.

14. (SBU) An additional uncertainty relating to Turkcell surrounds the simultaneous expiration of the Cukurova Group's share repurchase option on January 31. After a series of contradictory announcements regarding the option's status (Cukurova said it would run until October 31, while the SDIF and Banking Regulatory and Supervisory Agency (BRSA) said it had expired), the Koc Group announced that it would grant the Cukurova Group an additional year to purchase the shares, and would grant a slight discount (some EUR 55 million) if it exercised the option in the first six months. Subsequently, the Yapi Kredi Board (which was appointed by the BRSA in March 2004) said that it had final say over the shares' fate, and that it had not approved any such extension. Most analysts have concluded that while technically true, the latter announcement is essentially irrelevant, since Koc will replace the board when the purchase is finalized, and it is doubtful the board would move on the sale in the interim.

15. (U) The press has speculated that by purchasing the bank Koc was "killing two birds with one stone." The move puts Koc into the banking big leagues and also positions itself to take over the Cukurova Group's telecommunications assets, Koc CEO Bulent Ozaydinli officially denied that goal in a February 3 press conference, however. The bank purchase, he said, was simply aimed at raising the Koc Group's profile in the financial world. While Koc is interested in telecommunications (and is partnering with Sabanci for the forthcoming Turk Telekom privatization), he said it does not intend to get into the sector by profiting from another group's misfortunes.

16. (SBU) Comment: Much detail apparently remains to be worked out, and a number of important issues are still unclear, but indications are that the deal will move forward. One senior executive in the bank told us that the process has been eased by the fact that four senior executives at Koc Financial Services, including the CEO, came up through the ranks at Yapi Kredi Bank, and had extensive familiarity with its operations up until the late 1990s. Most analysts are bullish on the acquisition, seeing speedy resolution of the Yapi Kredi ownership issue as good for Turkish markets and for the banking sector as a whole. BRSA Chairman Tevfik Bilgin has several times told emboffs that Yapi Kredi is BRSA's biggest concern, hinting that it was too big to fail. If the Koc deal is finalized, it will be a major step forward in the long process of cleaning up the legacy of the 2001 crisis in the Turkish banking sector. With the purchase, Koc will jump from 8th to 3rd in the ranks of Turkish banks, leap-frogging industry leader Akbank and trailing only Isbank and Halkbank. One senior banking contact, however, who formerly headed the BRSA, warned us not to underestimate the challenge that Koc is taking on. Up to now, he noted, Yapi Kredi has focused on maximizing its market share and not its profits. (Kocbank, a third the size of Yapi Kredi, nonetheless outperformed it several fold in terms of profits in 2004). The challenge now, he said, will be to show that the bank can make money. End comment.

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